





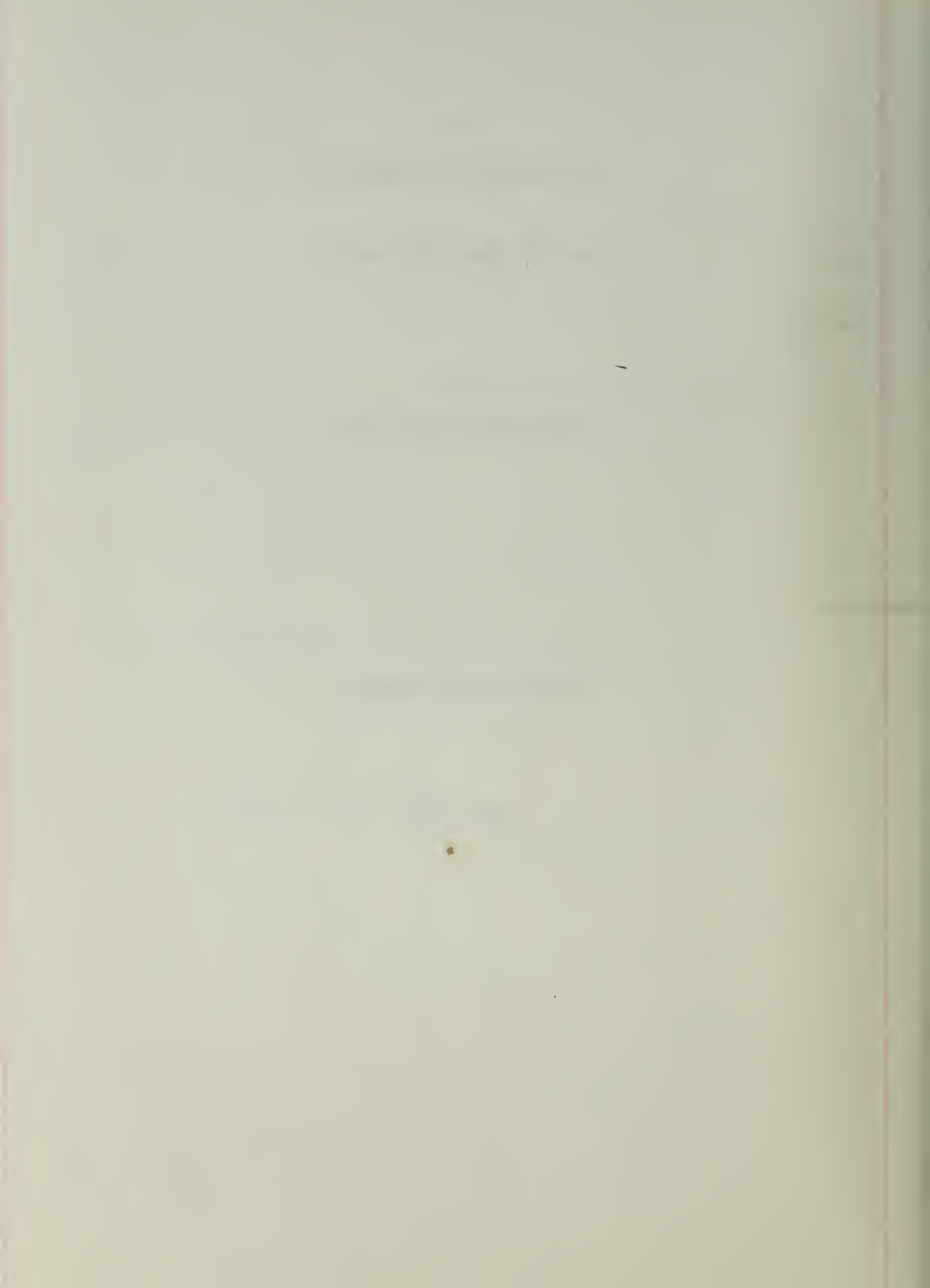
THE  
GEORGE WASHINGTON UNIVERSITY

THE NAVY PERFORMANCE BUDGET

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For  
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## INTRODUCTION

The purpose of this paper is to present, in an interesting and not too detailed manner, the origin, development, and future of the performance type budget in the Navy Department. The road to the present Navy budget with its current appropriations structure has been long and tedious and represents the burning of vast quantities of "midnight oil". No where in private industry do we find the scope and complexity of the problems involved in formulating and in administering the budget of the Department of the Navy; comparable problems and techniques are dwarfed by comparison.

In presenting the material, I have attempted to resist boring the reader with large numbers of charts, graphs, and exhibits which too many exponents of the budgetary processes seem to worship above all else, and which, for me at least, only serve to confuse the issue.



## CHAPTER I

### CONCEPT AND MEANING

Credit for formal introduction of a performance type budget should properly be given to the Commission on Organization of the Executive Branch of the Government (popularly known as the "Hoover Commission"). The idea of a performance budget was by no means novel since it had been introduced and employed at various times under the descriptive terms of "functional" or "activity" or "program" or "objective" budgeting. Many cities have used performance budgeting for years; Richmond, Virginia, installed such a budget as far back as 1912.

By passing the National Security Act Amendments of 1949, the Congress of the United States made mandatory the presentation of performance budgets by the Department of Defense and the three military establishments.

Section 403 of the National Security Act Amendments of 1949 deals specifically with the performance budget as follows:

Section 403 (a) The budget estimates of the Department of Defense shall be prepared, presented, and justified, where practicable, and authorized programs shall be administered, in such form and manner as the Secretary of Defense subject to the authority and direction of the President may determine so as to account for, and report, the cost of performance of readily identifiable functional programs and activities with segregation of operating and capital programs. So far as practicable, the budget estimates and authorized programs of the military departments shall be set forth in readily comparable form and shall follow a uniform pattern

(b) In order to expedite the conversion from present budget and accounting methods to the cost-of-performance method prescribed in this title, the Secretary of each military department, with the approval of the President, and the Secretary of Defense, is authorized and directed, until the end of the second year following the date of enactment of this Act, to make such transfers and adjustments within the military department of which he is the head between appropriations available for obligation by such department in such manner as he deems necessary to cause the obligation





and administration of funds and the reports of expenditures to reflect the cost of performance of such programs and activities. Reports of transfers and adjustments made pursuant to the authority of this subsection shall be made currently by the Secretary of Defense for the President and the Congress.<sup>1</sup>

In 1950 the Congress of the United States passed the Budget and Accounting Procedures Act of 1950 which while not using the words "performance budget," provided that :

The Budget shall set forth in such form and detail as the President may determine - (a) functions and activities of the Government; (b) any other desirable classification of data; (c) a<sub>2</sub> reconciliation of the summary on expenditures with proposed appropriations.

Even before the foregoing Act of 1950 was passed, the Director of the Bureau of the Budget announced that the Budget for fiscal year 1951 would be presented on a performance basis with a breakdown of over 90 percent of the proposed expenditures into activities showing programs and costs. Subsequently there has been continuous effort to present the Federal budget on this basis with some improvement shown each year.

Now that I have briefly discussed the background and evolution of the performance budget, I think it desirable to discuss what we mean by the term "performance budget". We have already seen how Congress described it in the Acts of 1949 and 1950 and amendments thereto, but what did they mean in everyday language?

Basically, performance budgeting means focusing attention on the objective to be attained rather than on the dollars to be spent. It is one in which all costs incidental to the accomplishment of a specific job or objective are consolidated into an identifiable project with projects grouped into primary functions in which fiscal and management responsibility are paralled. Capital expenditures are separated from current operating expenditures. In the

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<sup>1</sup>Public Law 216, 81st Congress, National Security Act Amendments of 1949.

<sup>2</sup>The Budget and Accounting Procedures Act of 1950, 64 Stat. 832 Title I, Section 102, amending Section 201 of the Budget and Accounting Act of 1921.



formulation of such a budget, the most important single task is the specific definition of the objective with an accurate estimate of what it will cost to achieve that objective.

In format, the performance budget is really two documents; the first contains the proposed work program to be accomplished stated in financial terms of costs versus revenues, and the second document contains Congress' action on these proposals in the form of appropriation Acts authorizing the use of funds to carry out the program. Since the appropriations Acts may increase, decrease, or even eliminate portions of the proposed program, it usually becomes necessary for the agency responsible for administering the program to revise its plan in line with changes made by the legislature. If the legislature adheres to the format of the executive proposed budget, the job of the operating agency will be greatly facilitated when it attempts to ferret out the intent of Congress contained within the appropriation Acts.

The Hoover Commission maintained that a performance type budget would point up the end use of the public funds and, to some extent, require Congress to concentrate on the work to be accomplished and the cost involved.

Such an approach would focus attention upon the general character and relative importance of the work to be done, or upon the service to be rendered.....The all-important thing in budgeting is the work or the service to be accomplished, and what that work or service will cost.<sup>1</sup>

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<sup>1</sup>Budgeting & Accounting, " a report of the Commission on Organization of the Executive Branch of the Government, February 1949.







## CHAPTER II

### PERFORMANCE BUDGET PRINCIPLES

Although the Hoover Commission did not prescribe the principles of performance budgeting in one, two, three order, it is evident that the members of that commission and those who have been actively engaged in improving the Federal budget each year do agree on the principal elements composing such a budget. The Commission on Organization of the Executive Branch of the Government commented in its report on the Navy Department budget:

We propose, for instance that by using performance budgeting, the cost of operating the Bethesda Center, along with those of other comparable Naval hospitals, would be shown as an identifiable program under one appropriation title for "Medical Care."

Certainly a comprehensive survey of existing appropriation practices looking toward simplification of appropriation structure, language, and procedure is long overdue. The revision of these practices should be made along the general lines and in accordance with the underlying purpose of the performance budget.

There is, at present, constant confusion in Federal budgeting and accounting because current expenditures and capital outlays are intermingled. These two types of expenditures are essentially different in character, and should, therefore, be shown separately under each major function or activity in the budget. This is an important feature of performance budgeting.<sup>1</sup>

The preceding three quoted paragraphs respectively emphasize the principles of:

1. Presenting all costs related to a program as a package.
2. Simplification of appropriation structure.
3. Separation of current or operating and capital expenditures.

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<sup>1</sup>Budgeting and Accounting, a report by The Commission on Organization of the Executive Branch of the Government, February 1949.

## CHAPTER II

### THEORY OF THE EARTH

The theory of the earth is a branch of geology which deals with the origin and development of the earth and its various parts. It is a science which seeks to explain the processes which have shaped the earth and its various parts. The theory of the earth is a branch of geology which deals with the origin and development of the earth and its various parts. It is a science which seeks to explain the processes which have shaped the earth and its various parts.

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Catheryn Seekler Hudson, writing for Advanced Management, enumerates the principal elements of a performance budget system as follows:

1. The use of work programs and activities.
2. The installation of work measurement and the application of performance standards.
3. The improvement of administrative reporting to include reporting on a performance basis and the establishment of a progressive system of record keeping along functional lines.
4. The installation and maintenance of an annual basis of accounting and improved cost accounting methods where applicable or desirable.
5. The provision for a comprehensive and continuous system of management analysis, evaluation, and improvement, including a system of internal auditing.
6. The presentation, justification, and authorization of public expenditures by appropriate primary categories--usually current operating expenditures and capital expenditures.
7. The revision of appropriation structure in terms of programs and activities to be administered.
8. The consistency of all the above elements with a central public policy.<sup>1</sup>

The Committee on Armed Services, House of Representatives stated the following principles:

Basic Principles - The underlying principles of the performance budget are clear and simple. The performance budget contemplates -

- (a) that all costs relating to a logical and identifiable program be included as a project or a budget program for presentation and justification by the Department concerned to the Bureau of the Budget, the President, and the Congress, and for administration and reporting after the appropriation of moneys;
- (b) that there be a logical and, so far as practical, uniform grouping of projects or budget programs by the primary functions of the military departments, with this grouping paralleling so far as possible, the organization and management structure;
- (c) that there be a segregation between capital and current operating categories.<sup>2</sup>

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<sup>1</sup>Performance Budgeting in Government, by Catheryn Seekler Hudson published in Advanced Management, March 1953, V 18 pp 5-9.

<sup>2</sup>Report from the Committee on Armed Services, House of Representatives on Reorganizing Fiscal Management in the National Military Establishment, July 14, 1949.





During the hearings before the Subcommittee on Appropriations, House of Representatives, on the Navy Department budget for 1950, the Director of the Budget and Reports, Department of the Navy commented on the Hoover Commission report:

The basic concept of this type budget is to develop the greatest possible coordination between management control and financial responsibility. Not only should it be possible to develop better estimates and to present them in a more logical and understandable manner, but also once the appropriations have been made, financial administration would be more direct and there would be a better means of holding program managers responsible for prudent use of funds available to them. These program managers would be aided, too, because in this planning they can ascertain more readily the exact status of all funds available for the implementation of approved projects.<sup>1</sup>

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<sup>1</sup>Hearings before the Subcommittee on Appropriations, House of Representatives, on the National Military Establishment Appropriation Bill for 1950.





## CHAPTER III

### PERFORMANCE BUDGETING IN THE NAVY

In Chapters I and II, I have attempted to define and describe, in general terms, the program or performance budget. Now, we will trace this type of budget through its conception and growth in the Navy to its present form as approved by Congress for fiscal year 1955.

Long before the Hoover Commission recommended the change to a performance type budget, it had been generally realized in the Navy that a major budget overhaul was badly needed. In January 1946, the Secretary of the Navy was requested by the Subcommittee on Naval Appropriations to submit a revised budget which would separate management from fiscal responsibility. The House Subcommittee on Appropriations stressed some of the defects of the Naval budget when in its report on the Navy Department Bill for 1947 it commented:

The committee is impressed with the fact that there is a considerable divergence in practices and procedures of the various bureaus of the Navy Department in the matter of the preparation of the annual naval budget.

The budget office of the Navy Department should lay down standard rules of procedure involving the preparation of the budget, and these rules should be adhered to by the budget offices of the various bureaus. The justifications prepared for committee consideration should be standardized and greater attention should be paid by chiefs of bureaus to the operation of their budget offices and to the responsibility of staffing these offices with experienced budget personnel who will be cloaked with sufficient authority to carry out their responsibilities in a businesslike and effective way---

Finally, the committee wants to stress again the completed need for the Navy Department to devise means and procedures which will insure a stricter and closer accountability of appropriated funds. In emphasizing this point, the committee wishes to make it very clear that there is no desire in any way to interfere with the freedom of action of responsible and able Navy administrative officers in performing their tasks and acquitting their responsibilities in an efficient and unbridled fashion. The essence of good government, however, demands that even though, by constitutional provisions, the legislative and executive functions of





government are clearly demarked and defined, nonetheless a true spirit of cooperative endeavor must prevail between these two agencies of government if the interest of the citizen is to be properly served. It is in this vein that the committee diverts its observations respecting the need for closer appropriation accountability.<sup>1</sup>

The result of the foregoing recommendations by the House Subcommittee on Appropriations was to cause the Navy to decide on a major overhaul of the Navy budget for fiscal 1948. As a result of the Navy study the following defects in the present budget structure became apparent:

1. The cost of primary functions were being charged to many different appropriations creating overlap of both administration and appropriations.
2. Bureaus were involved in the fiscal affairs of other Bureaus simply because of activities in the other's sphere of control.
3. Clear and concise presentation of the budget was impossible because of the jumbled and piecemeal fashion of preparing the estimations.

The crowning example and the one most quoted was that of the U.S. Naval Hospital at Bethesda, Maryland. This hospital was financed from twelve or more different appropriations involving fiscal management by eight bureaus and offices of the Navy Department. The poor hospital was in the middle since fiscal reports were required by all eight of these bureaus and offices.

The Navy Department decided to revise the appropriation structure to eliminate overlapping and to contain all the elements in primary functions. The Navy Budget Revision Board was appointed to assist on this project, and to resolve any difficulties arising during preparation of the 1948 budget. In cooperation with officials and bureaus of the Navy Department the Budget Revision Board evolved a budget structure which they believed would have these advantages:

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<sup>1</sup>Report on Navy Department Appropriation Bill, 1943, dated May 21, 1946, House Subcommittee on Appropriations.



1. Fiscal management would parallel management responsibility.
  - (a) All activity costs would be paid from a single appropriation.
  - (b) Each activity would have a single fiscal manager.
  - (c) Management responsibility would determine appropriation cognizance.
2. Internal management would be less complex because bureaus need concern themselves only with those activities over which they had primary control.
3. Fiscal control would be facilitated.
4. Budget presentation would be greatly improved.<sup>1</sup>

This revised budget was referred to as the 1948 "alternate" budget, since it was submitted to Congress as an alternate to the regular 1948 budget which was based on the old "non-performance" type of 1947. For comparison purposes, the following lists of Navy appropriation titles show the budget structures under the 1948 regular and alternate plans:

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<sup>1</sup>Proposed Revision of the Naval Appropriations Act, Office of Fiscal Director, Navy Department, December 1946.





TABLE 1

## NAVY APPROPRIATION TITLES FISCAL 1948

## 1948 BUDGET

## OFFICE OF THE SECRETARY

Miscellaneous Expenses, Navy  
 Contingencies of the Navy  
 Research, Navy  
 Operation and Conservation of Navy  
   Petroleum Reserve Number 4  
 Ocean and Lake surveys, Navy  
 Island Governments

## BUREAU OF NAVAL PERSONNEL

Naval War College  
 Naval Training Station, San Diego,  
   California  
 Naval Training Station, Newport, R.I.  
 Naval Training Station, Great Lakes,  
   Illinois  
 Fleet Training, Navy  
 Instruction, Navy  
 Libraries, Navy  
 Welfare and Recreation, Navy  
 Officer Candidate Training  
 Miscellaneous Expenses, Bureau of  
   Naval Personnel  
 Naval Reserve  
 Naval Academy  
 Naval Home, Philadelphia, Penn.

## BUREAU OF SHIPS

Maintenance, Bureau of Ships

## BUREAU OF ORDNANCE

Ordnance and Ordnance Stores, Navy

## BUREAU OF SUPPLIES AND ACCOUNTS

Pay and subsistence of Naval Personnel  
 Transportation and Recruiting of Navy  
   Personnel  
 Maintenance, Bureau of Supplies &  
   Accounts  
 Transportation of Things  
 Fuel, Navy

## 1948 "ALTERNATE" BUDGET

## SHIPS

Construction of Ships  
 Maintenance and Operation, Ships  
 Fuel

## ORDNANCE

Construction of Ordnance  
 Maintenance and Operation, Ordnance

## AVIATION

Construction of Aircraft  
 Maintenance and Operation, Aviation

## GENERAL SERVICE AND SUPPLY

Finance and Supply  
 Transportation of Things  
 Research  
 Civil Engineering  
 Island Governments  
   Latin-American Cooperation  
 Intelligence  
 Communications  
 Hydrographic Office  
 Naval Observatory  
 Petroleum Reserves  
 Extraordinary Expenditures

## NAVAL PERSONNEL

Pay Allowances and Quarters  
 Subsistence  
 Transportation  
 Naval Academy  
 Training and Education  
 General Personnel Expenses

## MEDICAL CARE

## MARINE CORPS

Pay, Marine Corps  
 General Expenses, Marine Corps

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TABLE 1--Continued

1948 BUDGET	1948 "ALTERNATE" BUDGET
BUREAU OF MEDICINE AND SURGERY	PUBLIC WORKS
Medical Department, Navy	Continental
BUREAU OF YARDS AND DOCKS	Overseas Bases
Maintenance, Bureau of Yards and Docks	ADMINISTRATION
Public Works, Bureau of Yards and Docks	
BUREAU OF AERONAUTICS	
Aviation, Navy	
MARINE CORPS	
Pay, Marine Corps	
Pay of Civil Force, Offices of	
Commandant of Marine Corps and	
Director of Personnel, Marine Corps.	
Pay of Civil Force, Supply Department,	
United States Marine Corps.	
General Expenses, Marine Corps	
SHIPBUILDING	
Construction of Ships	
Ordnance for New Construction	
NAVY DEPARTMENT SALARIES	
Office of Secretary of the Navy	
Office of Naval Research	
General Board	
Naval Examining and Retiring Boards	
Office of Naval Records and Library	
Office of Judge Advocate General, Navy	
Office of Chief of Naval Operations	
Board of Inspection and Survey	
Office of Director of Naval Communications	
Office of Naval Intelligence	
Bureau of Naval Personnel	
Hydrographic Office	
Naval Observatory	
Bureau of Ships	
Bureau of Ordnance	
Bureau of Supplies and Accounts	
Bureau of Medicine and Surgery	
Bureau of Yards and Docks	
Bureau of Aeronautics	

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TABLE 1--Continued

1948 BUDGET

1948 "ALTERNATE" BUDGET

CONTINGENT EXPENSES

Contingent Expenses, Navy Department  
 Printing and Binding, Navy Department  
 Contingent and Miscellaneous Expenses,  
 Hydrographic Office  
 Contingent and Miscellaneous Expenses,  
 Naval Observatory



By inspection and comparison of the foregoing budgets, it can easily be seen that the 1948 alternate budget was a big step in the right direction. Specifically, the number of appropriation titles was reduced from 60 to 31, primarily in the following two areas:

1. The 21 appropriations for salaries in the Washington area (19 for the Navy Department and 2 for the Marine Corps) were included in the major programs they supported.
2. Appropriations concerned with training and education were combined or absorbed in other appropriations.

Referring again to the classic example of the Bethesda Navy Hospital, we find that under the alternate budget this activity would have been financed by four appropriations and two bureaus in place of the original twelve and eight.

Despite the "forward look" of the 1948 alternate budget it was destined to be ignored by the Congress. There was a change in party control in Congress in January 1947, resulting in many new members in the Naval Subcommittee of the Appropriations Committee of the House. Due to the "green" members and the overloaded calendar, the Subcommittee decided to consider the budget submitted on the basis of the old structure.

The Senate Committee on Appropriations took and recognized the alternate budget to this extent:

The committee has noted the submission of the alternate budget which is designed to provide fiscal responsibility paralleling management responsibility, simplification of internal management, facilitation of fiscal control, greater clarity in budget presentations, and improvement of personnel control. The Committee endorses these objectives.<sup>1</sup>

I wish to stress here that the work expended on the 1948 alternate

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<sup>1</sup>Report from the Committee on Appropriations, U.S. Senate, June 23, 1947, on the Navy Department and Naval Service Appropriation Bill, Fiscal Year 1948.





budget was not all wasted. Many of the improvements made were studied and served to provide a basis for later changes. The failure of the subcommittee to accept the alternate budget had the effect of slowing and delaying the conversion to a pure performance budget; instead of completing the switch all at once, the Navy began a gradual improvement of its budget.

Little need be said about the changes made in the fiscal year 1949 budget. Suffice it to say that the number of appropriations was reduced from 60 in the 1948 budget to 52 in 1949 principally by eliminating and combining titles.

Although the Navy budget for fiscal 1950 was presented to Congress in January 1949 (prior to approval of the National Military Establishment Appropriation Act, 1950) it did take important strides toward a performance budget as indicated in the House report:

In the past the Department of the Navy has presented its budget justification in an arrangement of hearings to provide a partial functional analysis of the activity. This year through rearrangement and rewriting of the appropriation language the first broad step toward a functional budget has been taken. For example, in the present program all appropriations under the Bureau of Ships are grouped together, and so far as practicable the same is true in the other bureaus. It is the purpose of the present plan to bring together in one place all the costs relating to a particular activity and to provide a budget structure of grouping all changes for similar functions under the same appropriation.

In the 1950 budget, the Military Establishment was actually for the first time considered by the Congress as one department under a single head, the Secretary of Defense.

As the result of action by the Congress, the Bureau of the Budget, and the Secretary of Defense, it was made mandatory for the Navy to prepare the 1951 budget on a performance basis. Having already reduced the number of

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<sup>1</sup>Report from the House Committee on Appropriations in the "National Military Establishment Appropriation Bill," 1950, April 9, 1949.

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 The twenty-sixth is a direct consequence of the twenty-fifth.

The twenty-seventh is a direct consequence of the twenty-sixth.  
 The twenty-eighth is a direct consequence of the twenty-seventh.  
 The twenty-ninth is a direct consequence of the twenty-eighth.

appropriations from 52 in 1949 to 47 in 1950, the Navy decided to make another greater reduction to 21 appropriations for the 1951 budget.

For comparison, the following pages list appropriation titles for fiscal years 1951, 1955, and 1956.





APPROPRIATION TITLES  
1951 BUDGET

APPROPRIATION TITLES  
1955 BUDGET

APPROPRIATION TITLES  
1956 BUDGET

1. Military Personnel, Navy
2. Military Personnel, Naval Reserve
3. Military Personnel Officer Candidates
4. Military Personnel, Marine Corps
5. Military Personnel, Marine Corps Reserve
6. Navy Personnel, General Expenses
7. Marine Corps, Troops & Facilities
8. Aircraft and Facilities
9. Construction of Aircraft and Related Procurement
10. Ships & Facilities
11. Construction of Ships
12. Ordnance and Facilities
13. Medical Care
14. Civil Engineering
15. Public Works, Navy
16. Research
17. Service-Wide Supply & Finance
18. Service-Wide Operations
19. Expenses, Island Governments and Liberated and Occupied Areas
20. Operation and Construction of Naval Petroleum Reserves
21. Exploration of Naval Petroleum Reserve No. 4

1. Military Personnel, Navy
2. Military Personnel, Naval Reserve
3. Navy Personnel, General Expenses
4. Navy Personnel, Marine Corps
5. Navy Personnel, Marine Corps Reserve
6. Marine Corps, Troops & Facilities
7. Marine Corps, Procurement
8. Aircraft and Facilities, Navy
9. Aircraft and related procurement, N.
10. Ships and facilities, Navy
11. Construction of Ships, Navy
12. Shipbuilding and Conversion, Navy
13. Ordnance and Facilities
14. Medical Care, Navy
15. Civil Engineering
16. Military Construction, Naval Reserve Forces
17. Facilities, Navy
18. Research, Navy
19. Service-Wide Supply and Finance, N.
20. Service-Wide Operations, Navy
21. Naval Petroleum Reserves

1. Military Personnel, Navy
2. Reserve Personnel, Navy
3. Navy Personnel, General Expenses
4. Reserve Personnel Marine C.
5. Marine Corps Troops & Facilities Navy
6. Marine Corps Procurement
7. Aircraft and Facilities, N.
8. Aircraft and Related Procurement, Navy
9. Ships and Facilities, Navy
10. Construction of Ships, N.
11. Shipbuilding & Conversion, N.
12. Navy Military Procurement
13. Ordnance & Facilities, Navy
14. Ordnance for New Construction
15. Medical Care, Navy
16. Civil Engineering, Navy
17. Military Construction, Naval Reserve Forces.
18. Research and Development, N.
19. Service-Wide Supply and Finance, Navy
20. Service-Wide Operations, N.
21. Naval Petroleum Reserves
22. Facilities, Navy
23. Public Works, Navy



By comparing the appropriation titles on the preceding pages, we can see that the total number of appropriations has not continued to decrease each year since 1950. As a matter of fact it was decided to increase appropriations from 21 to 23 in the 1956 budget, in order to achieve better segregation of budget activities.

No discussion of the performance budget would be complete without a brief account of its effect on naval administration. It may be likened to the difference between a game of pool and a game of billiards. In the former, the player racks the balls; propells the cue ball with his cue into the racked balls and breaks them up; then picks off balls in some orderly rotation and directs them into pockets, counting the score as the balls are taken from the pockets.

The Commanding Officer of an activity in the year 1948 BP (before performance) administered his funds much as this game of pool is played; he gathered together all the allotments, and then picked off each allotment to accomplish a prescribed task. He had to keep score on each ball and often was never sure who won the game.

Under the performance budget a commanding officer will receive his funds from only one source, and will be concerned with only one allotment. He will deal with only two balls and the cue ball; the capital equipment and the operations and maintenance balls. He will know exactly where he stands because he will have the score on an accumulative basis at all times.

It is to provide this information to all agencies and activities of the Navy Department that the Navy Chart of Accounts has been revised and promulgated.

This chart of discounts is a complete cycle with the Bureaus and offices maintaining control of funds allocated to them to accomplish the purposes for which budgeted. Detailed accounting is performed for Bureau transactions and summary accounting is performed for authorizations granted field activities.







In all cases the ledgers maintained by field activities are subsidiary to the control accounts of the Bureau ledgers. The details concerning field operations flow into the Navy Regional Accounts Offices where the auditing and summarization function is performed for the Bureaus. Summary information is supplied the Bureaus by the Navy Regional Accounts Offices for posting to Bureau control ledgers. Management information, not a part of the accounting system, is supplied Bureaus directly from field activities. The integrated accounting-system provides, controls, and discloses the true condition of funds and authorizations at all levels.



## CHAPTER IV

### RECENT PROGRESS

In the more than five years since the passage of the National Security Act Amendments of 1949, the three Services have been engaged in converting their appropriation structures in order to comply with those instructions. The Budgetary demands created by the international situation have complicated the task of conversion. It has been a case of something more easily "said than done" since traditional organization and general uncertainty as to definition of terms were among the obstacles to be overcome.

Recently a new assistant Secretary of the Navy for Financial Management was designated relieving the Under Secretary of the Navy of his comptroller functions. The establishment of the new office was made in recognition of the increasingly significant contribution the comptroller is making to the efficient and economical management of the Navy programs. The importance of the financial area, it was felt, warranted the appointment of an Assistant Secretary on a full time basis.

The demonstrated value of the Comptrollership concept in providing management with coordinated and integrated staff services in the financial area has led to the installation of comptroller offices in additional Navy bureaus and field activities during the year. As of September 30, 1954, a total of 53 activities had installed comptroller organizations, 25 were in process of installation and 33 others were considering similar action.

A Navy-wide appropriation on a continuing or no-year basis for the procurement of major technical military-type items and certain long-lead-time





items was developed during the past calendar year and included in the fiscal year 1956 budget. This step is a significant advance in furtherance of the continuing efforts to provide necessary procurement flexibility and to segregate in the Navy budget the annual maintenance and operational costs from capital-type costs. The fiscal year 1956 budget estimates for the appropriation "Marine Corps Troops and Facilities" were formulated for the first time on the basis of requirements submitted by field organizations.

A charter, issued under the Navy Management Fund for the construction of military bases in Spain, provides for a unified system for programming, budgeting, and accounting, thus bringing together under one financial system all the funds and resources used in connection with this construction project.

The total number of Naval activities operating under the industrial fund concept is now 36. This number is considered to be approximately 50 percent of the total number suitable to such operation. Each successive year of operation under the Industrial Fund shows a definite trend toward a greater appreciation on the part of local and top level management of the "cost consciousness" the Fund is promoting in the Navy. The improvements are based on the concept of measuring actual performance against a predetermined plan expressed in terms of an operating budget.

The Industrial Fund has done much to remove those overlapping and hazy areas of management wherein more than one activity is physically located in the same area. Take for example a dispensary, under Bu Med, situated in a Naval Shipyard under management of Bu Ships. Instead of the dispensary being financed, as before, from two sources, under the Industrial Fund the shipyard would control and provide funds for the operation of the dispensary and bill the yard's customers for the services rendered by the dispensary. The Naval personnel treated would be billed to Bu Med as would pay of medical technicians employed in the dispensary.



## CHAPTER V

### DESIRABLE CHANGES

As noted in Chapters III and IV considerable progress has been made in simplifying and improving the appropriation structures of the Navy budget. However, certain additional modifications and changes appear desirable.

Major subclassifications of appropriations should be established for "end-product" functions parallel to an organization with clear-cut lines of authority and responsibility to carry out such "end-product" functions. In many areas the lack of clear-cut lines of authority and responsibility to carry out "end-product" functions impedes the establishment of a proper budget structure. The most idealistic budget structure would require that every appropriation fall entirely within one of five categories:

1. Military Personnel
2. Maintenance and operations
3. Procurement and Production
4. Research and development
5. Acquisition and construction of real property.

In order for the Navy to relate its existing appropriation structure to the above categories, a number of changes would be necessary since each Navy appropriation may include two categories, Maintenance and Operations, and Procurement and Production.

1. Major items of material should be eliminated from annual appropriations and instead budgeted in existing procurement and production appropriations or in a new no-year appropriation.
2. The items in the various appropriations relating to maintenance and operations should be combined in a single Navy-wide appropriation (exclusive of Marine Corps) for "Maintenance and Operations."



## SECTION 1

### ARTICLE 1

Section 1. The purpose of this Act is to provide for the establishment of a system of public health services in the State of New York. The system shall be designed to provide for the prevention, diagnosis, and treatment of disease, and for the promotion of the health of the people of the State. The system shall be organized and operated in accordance with the provisions of this Act. The system shall be subject to the supervision and control of the State Health Department. The system shall be subject to the annual review and report of the State Health Department to the Governor. The system shall be subject to the annual review and report of the State Health Department to the Legislature. The system shall be subject to the annual review and report of the State Health Department to the people of the State.

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- 3. The system shall be organized and operated in accordance with the provisions of this Act.
- 4. The system shall be subject to the supervision and control of the State Health Department.
- 5. The system shall be subject to the annual review and report of the State Health Department to the Governor.

Section 2. The system shall be organized and operated in accordance with the provisions of this Act. The system shall be subject to the supervision and control of the State Health Department. The system shall be subject to the annual review and report of the State Health Department to the Governor. The system shall be subject to the annual review and report of the State Health Department to the Legislature. The system shall be subject to the annual review and report of the State Health Department to the people of the State.

Section 3. The system shall be organized and operated in accordance with the provisions of this Act. The system shall be subject to the supervision and control of the State Health Department. The system shall be subject to the annual review and report of the State Health Department to the Governor. The system shall be subject to the annual review and report of the State Health Department to the Legislature. The system shall be subject to the annual review and report of the State Health Department to the people of the State.

Section 4. The system shall be organized and operated in accordance with the provisions of this Act. The system shall be subject to the supervision and control of the State Health Department. The system shall be subject to the annual review and report of the State Health Department to the Governor. The system shall be subject to the annual review and report of the State Health Department to the Legislature. The system shall be subject to the annual review and report of the State Health Department to the people of the State.



3. Facilities appropriation would be discontinued and absorbed in one of the five categories.

The classification of appropriations for the Navy based upon programs and functions, as proposed by the Department of Defense in November 1954 is as follows:

- |   |  |
|---|--|
| 1. Military Personnel                             | Military Personnel, Navy<br>Military Personnel, Marine Corps<br>Reserve Personnel, Navy<br>Reserve Personnel, Marine Corps<br>Retired Pay                                      |
| 2. Maintenance and Operations                     | Maintenance and Operations, Navy<br>Maintenance and Operations, Marine Corps   |
| 3. Procurement and Production                     | Aircraft and Related Procurement<br>Shipbuilding and Conversion<br>Construction of Ships MSTs<br>Procurement and Production, Marine Corps<br>Procurement and Production, other |
| 4. Research and Development                       | Research and Development   |
| 5. Acquisition and Construction of Real Property. | Acquisition and Construction of Real Property  |

Research and development appropriations should cover research contracts with private institutions and the costs of research installations operated by the Navy. The defense Appropriations Bill for fiscal year 1955 required the Navy to include for the first time all research and development activities under one appropriation.

There remains much room for improvement in formulation of costs for purposes of inclusion in the budget. The rise of standard unit prices for major items of material is important in order to prepare reasonable estimates of funds required for production and procurement. In the area of maintenance and operations similar unit cost standards should be used in pricing programs for overhaul of equipment. Whenever possible labor cost standards should be used.

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Working-capital funds should be utilized to finance the production of goods or services by industrial and service activities. The extension of the use of the Navy Industrial Fund should be expedited where possible.





## CHAPTER VI

### CONCLUSION

If you have waded through the foregoing chapters, it should have become evident by now that performance budgeting is apparently "here to stay" in the Navy. We have seen the significant improvements made in the Navy's budget structure until it has reached that point where the average layman can at last gain some slight insight into the budget processes of formulation and execution without first taking a graduate course in budget interpretation.

Granted that much remains to be accomplished, we can begin to see how the performance budget can provide a more meaningful basis for administrative planning, executive leadership, legislative action, and administrative accountability at all levels of government. It is a continuous forward moving process; never completed-never perfected but constantly pointing the road to greater efficiency in financial management. The will to get the job done is more important at this stage than the technical problems involved. The technical problems are numerous and difficult, but they can be solved if there is full cooperative effort within the Services and with the office of the Secretary of Defense.



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